FINANCE COMMITTEE MEETING OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Room E1.016
State Capitol Extension
1400 Congress Avenue
Austin, Texas

10:00 a.m.
Friday,
September 15, 2000

PRESENT:

MICHAEL JONES, Acting Chair
MARGIE BINGHAM

STAFF:

DAISY STINER, Executive Director

I N D E X

P R O C E E D I N G S

MR. JONES: I'd like to call to order the Finance Committee meeting for September 15, 2000, of the Texas Department of Housing and Community Affairs.

The chairman is not here at this point, and as a result of that, I will take the liberty of calling the roll, if there's no objection.

Mr. Donald R. Bethel, Chair, absent.

Ms. Margie Bingham.

MS. BINGHAM: Here.

MR. JONES: Mr. Michael Jones, here.

I have now determined that we do in fact have a quorum and so certify.

The first item we have on the agenda is presentation, discussion and possible approval of the minutes for the Finance Committee of August 11, 2000.

MS. BINGHAM: Move for approval.

MR. JONES: We have a motion they be approved. I second the motion. All in favor of the motion say aye.

(A chorus of ayes.)

MR. JONES: All those opposed, say nay.

(No response.)

MR. JONES: The ayes have it.

At this point, I will turn the meeting over to public comment.

Ms. Stiner, do we have anybody that would like --

MS. STINER: Any witness affirmation forms? No?

MR. JONES: Would anybody like to make comments to the Finance Committee?

(No response.)

MR. JONES: Anybody have such a desire.

(No response.)

MR. JONES: Seeing none, we will close the period for public comment and turn to item number 2, which is the presentation, discussion and possible approval of proposed issuance of Multifamily Mortgage Revenue Bonds for the Williams Run Apartments, Dallas, Texas, in an amount not to exceed $12,850,000 and other related matters.

Ms. Stiner.

MS. STINER: Thank you, Mr. Jones. I will ask the Multifamily Bond Finance staff to come forward and make their presentation. Robert Onion will be doing that on behalf of the staff. Thank you.

MR. ONION: Thank you. Good morning.

MS. STINER: Good morning.

MR. ONION: The first project on the agenda is Williams Run Apartments, which is an existing apartment complex, 252 units, in Southeast Dallas. The bonds are in a series of A and B. The Series A bonds are for 12,650,000, the interest rate is 7.65 percent, and the maturity is November 1, 2040. And the Series B bonds, which are taxable, are 200,000. The interest rate is 9.25 percent, and maturity is July 1, 2004.

What I'd like to also add to the write-up, in addition -- in the rent caps, in addition to having rent caps on the very low income set-aside, we also have rent caps on the low income or 80 percent of area median income. And that's in addition to the write-up.

The maturity date did change, as reflected on the resolution, and so if there is any inconsistency in the write-up, it's due to the movement of the closing date to closer to November.

At this time, I'd like to address any questions that you might have with regard to the write-up or the project.

MS. BINGHAM: We discussed that -- there are no material changes to the write-ups from what we've discussed before?

MR. ONION: Are there any material changes?

MS. BINGHAM: Yes.

MR. ONION: No, ma'am.

MS. BINGHAM: Okay. So basically, what we are simply doing is moving toward the issuance of the bonds at this step.

MR. ONION: Correct. We -- the date of the closing was moved closer to November due to trying to certify the tenants and the length of time that takes between there and closing.

MS. BINGHAM: Mr. Chairman, I would like to move of approval of Resolution Number 00-28 for the Williams Run Apartments for the issuance of funds.

MR. JONES: I would second that motion. Is there any other further discussion or questions?

MS. STINER: Is it Resolution 28 or 27? We have 27 in the book.

MR. JONES: I have 28 in my book.

MS. STINER: I probably have an earlier addition. I have 27. I'm sorry.

MR. ONION: I have an extra copy.

MS. STINER: Of course, the committee members are correct. I just have an old one.

Thank you.

MR. JONES: Any further comments, questions, discussion?

(No response.)

MR. JONES: Hearing none, are we ready to vote? I assume we are. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay?

(No response.)

MR. JONES: The ayes have it.

Item number 3, which is the presentation, discussion and possible approval of the proposed issuance of the Multifamily Mortgage Revenue Bonds for the Highland Meadow Village Apartments, Houston, Texas, in an amount not to exceed $13,500,000 and other related matters.

Ms. Stiner?

MS. STINER: Thank you, Mr. Chair. And Mr. Onion will continue with that presentation as well.

Thank you.

MR. ONION: The Highland Meadows Village Apartments is a to-be-built apartment complex in Southeast Houston, actually in the county. It's 250 units. The series of bonds are A, B, and C. The Series A Bonds are for 10,115,000, the interest rate is 6.75 percent, with a maturity of November 1, 2033.

Series B, which is also tax exempt is 2,635,000, interest rate 6.75, with maturity also November 1, 2033.

The Series C is taxable. 750,000 is the amount, interest rate is 8 percent, and maturity is May 1, 2008.

I did want to point out the payment dates on a semiannual basis have changed, and rather than being October and April, has gone to November and May. And so, therefore, in the write-up, any correspondence with relation to maturity dates or anniversary dates will change accordingly by that one month.

Also, I'd like to present to the Finance Committee a change in the underwriting report. I can either provide you with another copy of the complete underwriting report or simply what is changed, which is the recommended approval subject to the following conditions.

The changes are, in Number 2, it says, Resolution of Title Policy Issue. It was added "to be satisfied prior to closing."

Number 3 is "Receipt, review and acceptance of a detailed cost breakdown of all necessary site work," which has now been changed to "prior to closing," to "subsequent to closing." And bond amount and terms as reflected in the resolution.

The underwriting report indicated that the taxable bonds were 7.65 percent, and that's what was indicated early on when the report was done. However, through negotiation, that taxable amount changed to 8 percent. It affected the debt service by about $6,000 annually, and it's not a material change.

Also --

MS. BINGHAM: This is a 4 percent deal. Right?

MR. ONION: Excuse me?

MS. BINGHAM: This is 4 percent. Right?

MS. STINER: Four percent tax credits, yes, ma'am.

MS. BINGHAM: This is a 4 percent deal.

MR. ONION: Yes, ma'am.

MS. BINGHAM: So your recommendation under -- your change under Item 6, "The potential deferral of all of the TDHCA administration, compliance, and oversight fees for the first year of stabilization and operation" -- is this a subsidy? The reason I raise that question is because how it would be treated.

And I know how difficult it is, even in our larger major metropolitan areas, Houston and Dallas, to do these 4 percent deals. So are we allowing all applicants to this same consideration in 6, these recommendations you made? Is this something we do across the board?

MR. ONION: This is a recommendation by the underwriting department that based upon their underwriting criteria, they -- it appears that there may be a need to do that.

MS. BINGHAM: But those dollars are income to the department.

MR. ONION: Yes, ma'am.

MS. BINGHAM: And so what we're doing is we are subsidizing the project by allowing them to keep them at least during the first year. Are we collecting them cumulative later?

MS. STINER: Brent -- excuse me, Ms. Bingham. Yes, ma'am. And I'll answer part of that question and ask Brent Stewart, who's the director of Multifamily Housing, to come forward.

But it is a practice within the department to do it on a case-by-case basis. Once those fees are deferred, Brent, will you speak to how they're then collected by the department?

MR. STEWART: Yes. Brent Stewart, director of Multifamily Finance. We've never had a -- we've had situations where the underwriting would indicate the potential for a deferral of fees.

MS. BINGHAM: Uh-huh.

MR. STEWART: We haven't had a situation where the actual income on the property was low enough to the point that required us to actually defer the fees. But in a case of a deferral, there would be -- it's a deferral; it's not a forgiveness of the fees. Those fees would be, you know, made up as available cash flow --

MS. BINGHAM: It's deferred. Is it accumulating interest or anything?

MR. STEWART: It's not accumulating interest.

MS. BINGHAM: So it is basically -- the question I have, and I -- this is a policy issue, and all I'm requesting, in fairness, that each applicant gets the opportunity. And my message is not so much for the staff, but it's for the senators as well.

Houston and Dallas are your major metropolitan areas, and when you run into the lottery -- and it is, I suspect, a true lottery -- you grab your project, and you run on down the road. If Houston and Dallas cannot successfully do these programs, then who are we fooling? When the -- you know, this disingenuous talk about rural Texas, when they really aren't looking out for rural Texas. If Houston and Dallas can't do it, how can the rural communities do it?

So what I've said is if Houston and Dallas can't accomplish it, Lometa sure can't do it. So my point is, at the City of Houston, as the director of housing, we give out subsidies every day, but we don't attempt to tell the public that we're not giving subsidies.

This is a subsidy to this project, and it's in Houston and I'm going to support it, but I want the world to know that when we talk about what we want to do for housing, we need to get about the business and do things for housing.

So, Mr. Chairman, those are the only questions I have. I have no problem with this project in my backyard, and I'm going to support it. But I want everybody to know that we are granting subsidies around here. We just need to be consistent across the board, and everybody needs to come to the table and talk about what they're getting.

Mr. Chairman, I recommend approval --

MR. JONES: Okay. We have a motion --

MS. BINGHAM: -- with the conditions.

MR. JONES: We have a motion, I believe, that Resolution Number 00-27 be approved with the six recommended conditions that have been discussed and provided us in the credit underwriting analysis.

Is that the motion, Ms. Bingham?

MS. BINGHAM: Yes, sir.

MR. JONES: I will second the motion. Is there further discussion and questions concerning the motion?

MS. BINGHAM: And that is 00-27. Right?

MS. STINER: Yes, ma'am.

MR. ONION: Yes, ma'am.

MR. JONES: Okay. Hearing no further

discussion, are we ready to vote? I assume we are. All in favor of the motion, please say aye.

(A chorus of ayes.)

MR. JONES: All opposed, nay.

(No response.)

MR. JONES: The ayes have it.

MR. ONION: Thank you.

MR. JONES: We will then move to item 4, which is the presentation, discussion, and possible approval of the extension of certificate purchase period for Program 54.

Ms. Stiner.

MS. STINER: Thank you, Mr. Chairman.

Byron Johnson, will you come forward, please.

The director of Bond Finance will make the presentation on behalf of the staff.

MR. JOHNSON: Good morning. Byron Johnson, director of Bond Finance.

In 1998, the department issued its Residential Mortgage Revenue Bonds, Series 1998A and Series 1998B, which is otherwise referred to as Program 54. The origination period for Program 54 would end on October 23, 2000. We have approximately $3.4 million remaining that can be lent out to individual borrowers. And if we do not extend the origination period, we'll have to use those proceeds to call bonds.

The staff believes that we can -- extending the program would permit them enough time to originate the remainder of the funds. The interest rate on the loans is 5.85 percent, and there should be no problem of getting the rest of the money out. And we're asking for approval of the extension on a contingent basis.

If we have less than a million dollars or so at the beginning of October, then we may consider just calling bonds with that, because the unexpended proceeds call will be less than 1 percent. So this is kind of a contingency move, and we do expect to originate the funds.

MR. JONES: Questions or discussion?

MS. BINGHAM: That's 00-29? I move for approval.

MR. JONES: I second the motion. Further discussion? Hearing none, are we ready to vote? I assume we are. All in favor, please say aye.

(A chorus of ayes.)

MR. JONES: The ayes have it.

Thank you.

MS. BINGHAM: Ms. Stiner -- Mr. Chairman?

MR. JONES: Yes.

MS. BINGHAM: Are we going to have a report on our successful --

MS. STINER: Yes, ma'am. That's under report items.

Mr. Johnson, will you come back and take a seat? We had a successful pricing of bonds for the new issue, and the underwriters are here. And, Mr. Johnson, will you make the presentation report, please?

MR. JOHNSON: I'll keep it to less than ten minutes.

MS. STINER: Thank you.

MS. BINGHAM: Has Mr. Machak arrived?

MS. STINER: Yes. Mr. Machak -- I saw him coming.

Yes, Gary. Why don't you come on down.

Mr. Johnson?

MR. JOHNSON: I brought with me "The Bond Buyer" from Wednesday. We priced $124,915,000 in bonds on Tuesday, and this is kind of a quick paragraph from "The Bond Buyer" Wednesday talking about the market on Tuesday. And it starts out that "The municipal secondary was shaky yesterday, unsettled by more than 1.5 billion of mostly aggressively priced new bonds in a faltering Treasury market."

And as you know, the Treasury market did falter, and we got caught right in the middle of it -- the faltering. And we went in and we started to do 115 million of tax-exempt bonds and about 25 million in taxables, but we feared that the rate on the taxable bonds would drive up the rate on the mortgage to a level that we were not comfortable with. So we cut out 15 million in taxable, combined that with 114 million in tax-exempt bonds, and came to a mortgage rate of 6.6 percent.

We were able --

MS. BINGHAM: Say that again, loudly.

(General laughter.)

MR. JOHNSON: Cut to the chase. The mortgage rate of 6.6 percent. We anticipate closing on the bond issue on October 26.

I would like to commend our financial advisor and the underwriters. We just got -- the market was great up until Monday, and Tuesday morning it just went away from us, and we had to restructure the issue that morning. And they came up with an alternative issue and --

MR. JONES: So you're blaming them for what happened on Tuesday.

(General laughter.)

MR. JOHNSON: No. No. And I'll turn it over to Gary.

MR. MACHAK: Yes. I thought it went very well. Thank you, Byron, for the compliment. And compliments to the underwriter and the rest of the working group -- bond counsel, underwriter's counsel, disclosure counsel, and others included -- trustee.

That day was a bit of a choppy day, but long term and over the year, we really have hit a week and hit a time period -- a time frame where we are right about the lowest rates during the year. So on a larger scope, our timing couldn't have been better; it's just it was unfortunate the day we had was a little bit choppy, a lot of corporate debt coming to market.

But all in all, the bonds were placed. They were placed at reasonable rates and market rates. The fees that are being paid with the issue are in line with other fees that are being paid on issues out there in the marketplace. And I would gladly go into more detail, but in all, the recommended transaction --

MS. BINGHAM: And I think it goes to show, once again, that even in a terrible market, when you expand the list of underwriters and rotate and allow people to bring in energy and creativity, as opposed to sticking with the same old group time after time -- each emphasis, all of our underwriters have stood up and met the challenge and worked with our staff and financial advisor, and I think a 6.6 mortgage rate is good for the State of Texas even in a terrible market. I just want to congratulate you.

MR. JOHNSON: And we incorporated a couple of things -- premium pack bond, that would provide us with proceeds to use towards cost of issuance. And Countrywide stepped up and gave us a 1 percent up-front premium on the service release premium. So the department --

MS. BINGHAM: Speak into the mike, and tell them what Countrywide did again.

MR. JOHNSON: Okay. Countrywide -- I don't know the full title -- Countrywide, Inc., provided a 1 percent premium on the service release premium up front. We will combine that with the proceeds from the premium bonds, and will not have to use any department funds to pay cost of issuance.

MS. BINGHAM: Thank you. That's what happens when you use strength in a competitive environment.

MR. MACHAK: Just one other comment, too. The underwriters, after the order periods were over and some slight repricing, they did have to go long some bonds, especially in the serial bonds. And I believe that they still have balances, so the whole underwriting group has stepped up to the plate for the department to take the market risk for you.

MS. BINGHAM: That's why you have a good underwriting team.

MR. JOHNSON: That's right.

MR. JONES: Any more reports?

MS. STINER: If these gentlemen are finished, that concludes our reports, Mr. Chair.

MR. JONES: Anything further for our meeting?

MS. STINER: No, sir.

MR. JONES: I'll adjourn the meeting. Thank you.

(Whereupon, at 10:30 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: Finance Committee
LOCATION: Austin, Texas
DATE: September 15, 2000

I do hereby certify that the foregoing pages, numbers 1 through 20, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

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